Capitec Bank Holdings Limited
Registration number 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI ISIN code: ZAE000035861
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("Capitec" or "the company")

VICEROY RESEARCH GROUP REPORT ON CAPITEC – DETAILED RESPONSE TO THE MAIN ISSUES RAISED IN THE REPORT

We refer to previous announcements on SENS advising shareholders of concerns about the integrity of the report by Viceroy Research Group on Capitec ("the Viceroy report"). We will continue to respond in more detail and as a whole to all the allegations made as we work through the report.

In this announcement we address the following incorrect conclusions of the Viceroy report that are both fundamentally flawed and misleading:

1. Irreconcilability of our loan book value – we confirm that our loan book reconciles and DENY any misrepresentation of the loan book;
2. Loan book overstatement of R11 billion due to suggested impairment/write-off amounts - we confirm that there is NO overstatement and that NO adjustment is required;
3. Rolling existing unpaid loans by issuing new loans and initiation fees charged on rescheduled loans – we DENY the accusation that we roll unpaid loans and confirm that we do NOT charge initiation fees when rescheduling loans.

1. Accusation that our loan book is irreconcilable

The reconciliation of our loan book is incorrectly stated in the Viceroy report. We breakdown the actual movement of our loan book as follows:

R'm	**2017**	**2016**	**2015**
Opening gross loans	40,891	36,341	33,690
Loan sales(i)	27,226	24,228	19,417
Instalment excluding settlement(ii)	(253)	(699)	(473)
Total lending income	14,362	12,837	11,287
3rd party insurance cost(iii)	214	-	-
Repayments(iv)	(32,983)	(28,689)	(23,787)
Write-offs(v)	(5,447)	(3,981)	(4,395)
Recoveries(vi)	1,125	854	602
Closing gross loans	**45,135**	**40,891**	**36,341**

(i) New credit granted; only the amount of the separate new credit and excludes all rescheduled loans

(ii) For early internal settlements, where a subsequent loan is taken, the last repayment does not lead to an outflow

(iii) Third party loan insurance through Guardrisk is an option to our clients since 6 May 2016. We reflect the income net of cost. The cost represents the third party reinsurance costs

(iv) Debit orders, and cash repayments and early settlements (normally occurs when another credit provider takes over the loan)

(v) Earliest of when the client's account is handed over to external debt collectors or a loan is past 90 days in arrears (CD3+)

(vi) The cash received on doubtful debts previously written off

Conclusion: Our loans and advances reconcile and are NOT misrepresented by including rescheduled loans through the issuance of new loans as alleged in the Viceroy report. Rescheduling is further discussed under section 3 below, but we confirm rescheduling is NOT included in the loan sales figures above. We furthermore confirm, that we DO NOT advance loans to clients who are in arrears with their Capitec instalments.

2. Accusation that we overstate our loan book with R11 billion due to suggested impairment/ write-off amounts

2.1 The Viceroy report presents information that is not clearly comparable and fails to present information that is easily available in the public domain. We believe this intentionally creates the false impression that Capitec's arrears rate is understated compared to two other credit providers mentioned in the Viceroy report.

Capitec's arrears analyses, compared to the other credit providers, are different in terms of our granting, pricing, write-off and provisioning policies. The other credit providers' arrear loan balances include contractual delinquency ("CD")3+/4 and higher. We, however, write-off a loan at the earliest of when the loan is past 90 days in arrears (CD3+) or the client's account(s) are handed over to external debt collectors.

The omission of these facts, along with statements in the Vicery report alluding to Capitec having ‘impossibly low arrears’ and ‘massive write-offs’ furthers its cause of creating doubt and uncertainty about Capitec, instead of creating an understanding of our conservative provision model.

2.2 It is our understanding that the Viceroy report concludes that Capitec’s provision and write-off balance, as a percentage of our gross loans and advances, is significantly less than the percentages disclosed by the other credit providers. The Vicery report suggests that our provision and write-off balances should therefore essentially be doubled i.e. a further R5.9 billion doubtful debt provision and R5.4 billion write-off amount is required.

If we apply our write-off policy to the arrears loan balances of one of the other credit providers by excluding CD4 and higher arrear balances as disclosed in the Viceroy report, their arrears would decrease by 67%.

Alternatively, to compare our gross loan book to that of the other credit providers on a like for like basis, CD4 and higher needs to be excluded from the loan and impairment balances.

Below we illustrate the effect of the above using the write off and doubtful debt provision methodology as disclosed by Capitec for the year ended 28 February 2017, as well as applying the methodology of the other credit providers to our disclosed financial information.

Loan book analyses (R’m)	**Capitec**	**Other credit providers’ methodology applied to Capitec**
Total gross loans (grossed up for other credit providers)	45,135	50,582
CD4 and higher /write off(vii)	-	(5,447)
Gross loans (net of CD4 and higher /write off)	**45,135**	**45,135**
Balance sheet impairment	(5,930)	(5,930)

Amounts written off(vii)	-	(5,447)
Total impairment	**(5,930)**	**(11,377)**
Total impairment as % of total gross loans	**13.1%**	**22.5%**

(vii) In the case of Capitec, we write-off CD3+ but the other credit providers include CD4 to CD9 (a further 6 months) in their figures. We therefore added the Capitec 6 monthly write off amount to reflect as CD4 and higher, added it to gross loans and added it to impairments.

The analysis above illustrates why our percentage of 13.1% is so much lower than the adjusted 22.5% to compare Capitec to other credit providers. The adjustment results in an increase of 72% of the total impairment percentage of total gross loans.

Conclusion: The Viceroy report analysis does not take the different approaches and the conservatism of Capitec's write off policy of CD3+ into consideration. NO adjustment to the net loan book is therefore required.

3. Accusation that we roll existing unpaid loans by issuing new loans and that we charge initiation fees on rescheduled loans

Capitec does not roll unpaid/arrears loans into longer term new loans to disguise poor asset quality. The process of originating new debt and consolidations is different to rescheduling existing loans.

Below, by way of examples, we unpack the instalments, interest, fees and loan sales as recognised and disclosed in our audited annual financial statements on a new (3.1), consolidated(3.2) and rescheduled loan (3.3). For ease of reference, all the examples refer to a R100 000 loan over a term of 60 months at an interest rate of 14% (net annual compounded monthly(nacm)).

3.1. New loan

The origination of new debt follows the credit granting process which incorporates the comprehensive assessment of the clients' behaviour, affordability and source of income, using amongst other sources, credit bureau, bank statements, and payslip information. This is explained in further detail in our 2017 integrated annual report on page 59 to 63.

New loan example:

Loan amount	100,000

Once-off initiation fee (including VAT)	1,197
Principal	**101,197**
Payment	2,355
Monthly service fee	68
Monthly instalment	**2,423**

3.2. More than one loan or consolidation

When existing clients apply for further credit, a full credit assessment is conducted. If a client qualifies for further debt, credit can be extended as a further credit agreement in addition to the current debt or the client can have her/his existing debt consolidated into a new credit agreement. This option is only available for clients if instalments are UP TO DATE (not in arrears on any of their Capitec debt) and clients that have a satisfactory credit risk rating (including external spending, other loans and repayment behaviour).

Important to note:

- Initiation fees are only charged on new loans or the amount of the separate new credit. All initiation fees comply with the National Credit Act (NCA)
- No loan or facility will be granted to any client if any Capitec loans/facilities are in arrears
- Only the amount of the separate new credit is included in loan sales

Consolidated loan example (Existing Capitec loan client as above):
After 30 months, the client wants to consolidate her/his loan. The client has a new need, purpose or goal (e.g. home renovation). Since the original loan has been taken, the client has had a promotion or increased inflationary salary as an example. The client’s outstanding balance at the end of 30 months is R59,314 on the current Capitec loan and wants an additional R50,000 (at 14% interest over 30 months). The client has the option whereby (3.2.1) the additional loan remains a separate loan or (3.2.2) the loan is consolidated with the current outstanding loan balance.

3.2.1. **Additional loan remains separate**

Monthly instalment on existing loan	**2,423**
Additional loan amount	50,000
Initiation fee (including VAT) on additional R50 000 (as per NCA table)	1,197
New loan principal	**51,197**
Payment	2,033

Monthly service fee on additional loan	68
Monthly instalment on additional loan	**2,101**
Total monthly instalment	**4,524**

3.2.2. **Consolidation loan**

Consolidated loan amount (59,314 + 50,000)	109,314
Initiation fee (including VAT) on additional R50,000	1,197
Total loan principal	**110,511**
Monthly service fee on consolidated loan	68
Monthly instalment on consolidated loan	**4,456**(viii)

(viii) The benefits of a consolidated loan are:

- the client saves on the extra R68.40 monthly service fee charged on the additional loan (R4,524 – R4,456)
- restricting bank charges to one debit order only
- convenience to the client of only having to manage one loan

Conclusion: On consolidation of an existing loan, loan advances/ sales only includes the amount of the separate new credit i.e. the additional loan amount as referred to in the example of R50,000, with the related initiation fee.

3.3. Rescheduling

Rescheduling is aimed at assisting clients whose circumstances have changed since taking up credit and to manage part of the collection process. Rescheduling is a process applied by most mature credit providers.

Where clients have existing debt and are experiencing difficulties in repaying instalments or anticipate that they will experience difficulties, the bank will consider the merits to reschedule the debt based on prescribed criteria. The client is evaluated on specific rules to evaluate whether the client qualifies for the loan to be rescheduled.

Rescheduling supports the rehabilitation of clients by improving the collection potential on such financially stressed, or potentially financially stressed clients.

Important to note:

- NO origination fees are charged on rescheduled loans as NO new credit is advanced

- Rescheduling is a formal amendment to an existing loan contract and rescheduled loans are therefore NOT included in loan sales as NO new credit is granted
- Provisions in place at the time of rescheduling, are NOT released. As the client repays the rescheduled loan instalment (actual cash repayment or successful debit order payment), 1/12th of the provision in place compared to an up to date, rehabilitated rescheduled client, is released per month until the client is fully rehabilitated. This is based on statistical evidence and conservatism. If the remaining term of a rescheduled loan is less than 12 months the period of release is decreased over the remaining term.
- Should the client fall one day in arrears on the rescheduled loan, the client will be immediately included in CD1 (contractual delinquency 1 month), but on an increased provision percentage that reflects the escalated risks.
- A comprehensive review was done and released on Friday 2 February 2018 on rescheduling of loans and the treatment of provisions. This review was done for Benguela Global Fund Managers and is available on our website www.capitecbank.co.za/investor-relations

Rescheduled loan client example
After month 30, a client misses the 31st instalment and is in arrears. The client reschedules the loan by extending the remaining term with 6 months to 36 months. NO initiation fee is charged when the loan is rescheduled.

Outstanding balance on existing loan	59,314
Initiation fee on reschedule	0
Payment (over 36 months)(ix)	2,027
Monthly service fee on existing loan (x)	68
Monthly instalment on rescheduled loan	**2,095**

(ix) The payment decreased from R2,355 (see 3.1 above) to R2,027 by stretching the remaining period from 30 to 36 months
(x) This fee is payable for up-to-date or rescheduled loans – therefore NO additional fee is payable

Conclusion: The statement that Capitec charges initiation fees on rescheduled loans is false. Rescheduling is an amendment to an existing contract and rescheduled loans are therefore NOT included as new credit granted or loan sales.

5 February 2018
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